



Mark Scheme (Provisional)

Summer 2021

Pearson Edexcel International

Advanced Subsidiary

In Economics (WEC12)

Unit 2: Macroeconomic performance  
and policy

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

## Section A

| Question Number | Quantitative skills assessed  | Answer   | Mark |
|-----------------|---|--|------|
| 1               |   | <p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because the students are employed</p> <p><b>C</b> is not correct because real wage inflexibility relates to a cause of unemployment</p> <p><b>D</b> is not correct because the students are economically active</p>  | (1)  |
| 2               | <p>QS2: Calculate, use and understand percentages, percentage changes and percentage point changes</p> <p>QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> | <p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because the inflation rate is always positive throughout the period</p> <p><b>B</b> is not correct because inflation was experience in May, June, July and August so average price levels would be higher in August</p> <p><b>D</b> is not correct because the rate of inflation was lowest in July</p>  | (1)  |
| 3               |   | <p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because lower welfare payments would reduce government expenditure</p> <p><b>B</b> is not correct because a lower exchange rate is unlikely to have a direct influence on government expenditure</p> <p><b>D</b> is not correct because increased business confidence will be likely to lead to higher rates of economic growth reducing the proportion of GDP made up by government expenditure</p> | (1)  |

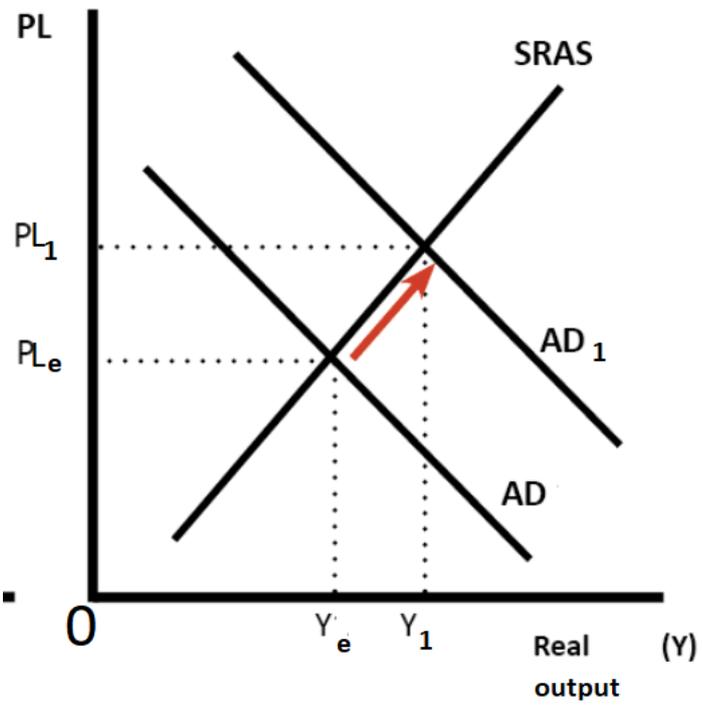
|                 |   |   |                   |
|-----------------|---|---|-------------------|
| <p><b>4</b></p> | <p>QS4 Construct and interpret a range of standard graphical forms</p> <p>QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because between U to V the economy is experiencing a downturn/ negative economic growth</p> <p><b>B</b> is not correct because at point V there is a negative output gap</p> <p><b>C</b> is not correct because between W and X the economy is growing and with more output unemployment is likely to be falling</p>  | <p><b>(1)</b></p> |
| <p><b>5</b></p> |   | <p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because decreased rate of economic growth will most likely result in reduced levels of investment</p> <p><b>B</b> is not correct because an increase in indirect taxation adds to the costs of business and will result in reduced investment</p> <p><b>C</b> is not correct because an increase in the tax on company profits means less profits can be used to fund investment reducing the investment in the economy</p> | <p><b>(1)</b></p> |
| <p><b>6</b></p> | <p>QS1 Calculate, use and understand ratios and fractions</p> <p>QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>          | <p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because this is the value of the marginal propensity to withdraw</p> <p><b>C</b> is not correct because this is <math>1/MPC = 1/0.49</math></p> <p><b>D</b> is not correct because this is the MPC multiplied by 10</p>   | <p><b>(1)</b></p> |

## Section B

| Question Number | The French Government is to offer €5 billion in tax relief for business investment.<br><br>Explain <b>one</b> likely economic effect of this investment tax relief.<br><br>Answer  | Mark       |
|-----------------|--|------------|
| 7               | <p><b>Knowledge 1, Analysis 2, Application 1</b></p> <p><b>Knowledge and Analysis</b></p> <p>1 mark for knowledge of investment or tax relief</p> <ul style="list-style-type: none"> <li>• Defining investment: spending on capital goods/</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Defining tax relief on investment: where firms are charged a lower rate of taxation to encourage investment <b>(1)</b></li> </ul> <p><b>OR</b></p> <p>Up to 3 marks for identifying one effect with linked expansion e.g.</p> <ul style="list-style-type: none"> <li>• It has the effect of lowering the costs for firms who are investing <b>(1)</b> which increases the profit that investment can generate <b>(1)</b> this will encourage increased levels of investment <b>(1)</b></li> <li>• Tax relief will encourage higher levels of investment <b>(1)</b> this is a component of AD and causing AD to rise <b>(1)</b> this should lead to increased real output/increased price level <b>(1)</b></li> <li>• Tax relief reduces the tax firms will pay <b>(1)</b> which increases the profits that can be generated from investment <b>(1)</b> so firms will increase investment levels <b>(1)</b></li> <li>• Tax relief will encourage investment <b>(1)</b> which will help to improve employment <b>(1)</b> and thus lower unemployment <b>(1)</b></li> <li>• Tax relief will encourage higher levels of investment <b>(1)</b> which will cause a rightward shift in LRAS in the long run <b>(1)</b> will should lead to an increase in real output/decrease in price level <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>1 mark for applying to France e.g.</p> <ul style="list-style-type: none"> <li>• Tax relief will lower the cost of investment for businesses by €5bn <b>(1)</b></li> </ul> | <b>(4)</b> |

| Question Number | <p>In the first quarter of 2019 average house prices decreased by 15% in real terms in Sydney, Australia.</p> <p>Explain <b>one</b> possible impact of this change in house prices on the level of consumption.</p> <p>Answer</p>  | Mark       |
|-----------------|--|------------|
| 8               | <p><b>Knowledge 1, Analysis 2, Application 1</b></p> <p><b>Knowledge and Analysis</b></p> <p>1 mark for one impact of the link between house prices and consumption and up to 2 marks for linked expansion:</p> <ul style="list-style-type: none"> <li>• As the value of a consumers assets fall <b>(1AN)</b> they feel less wealthy and start to become less confident <b>(1AN)</b> so they start to reduce their consumption of goods and services <b>(1K)</b></li> <li>• As the value of a consumer’s assets fall they feel less wealthy <b>(1AN)</b> and reduce their consumption of goods and services <b>(1AN)</b> leading to a fall in AD/fall in real output and price level <b>(1K)</b></li> </ul> <p><b>Application</b></p> <p>One mark for applying to Sydney, Australia</p> <ul style="list-style-type: none"> <li>• House prices have decreased 15% <b>(1)</b></li> </ul> | <b>(4)</b> |

|                 |  |      |
|-----------------|--|------|
| Question Number | <p>In January 2016 the world price of oil was \$29.78 per barrel. By May 2019 this had increased to \$66.83 per barrel. Saudi Arabia is a net exporter of oil.</p> <p>Draw a diagram showing the change in AD for Saudi Arabia's economy following the increase in the price of oil. Show the effect on the price level and real output.</p> <p>Answer</p> | Mark |
|-----------------|--|------|

|   |   |     |
|---|---|-----|
| 9 | <p><b>Knowledge 1, Application 3</b></p> <p><b>Quantitative skills assessed:</b></p> <p>QS4 Construct and interpret a range of standard graphical forms</p>  <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>• 1 mark for drawing original SRAS and AD curves with correctly labelled axis and initial equilibrium</li> </ul> <p><b>Application</b></p> <ul style="list-style-type: none"> <li>• 1 mark for rightward shift in AD</li> <li>• 1 mark for new equilibrium with increased price level,</li> <li>• 1 mark for new equilibrium with increased real output</li> </ul> | (4) |
|---|---|-----|

| Question Number | With reference to the overall trend of the data, explain what is meant by the term 'growth of real GDP'.<br><br>Answer  | Mark       |
|-----------------|---|------------|
| 10              | <p><b>Knowledge 2, Application 2</b></p> <p><b>Quantitative skills assessed:</b><br/>           QS2: Calculate, use and understand percentages, percentage changes and percentage point changes<br/>           QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge</b><br/>           Up to 2 marks for defining what is meant by "growth of real GDP":</p> <ul style="list-style-type: none"> <li>• An increase in the total value of output/expenditure/ income <b>(1)</b> adjusted for inflation <b>(1)</b></li> </ul> <p><b>Application</b><br/>           1 mark for the trend e.g.</p> <ul style="list-style-type: none"> <li>• Growth rate increases between Q1 and Q2/Q3/Q4/ between Q2 and Q3 <b>(1)</b></li> </ul> <p>1 mark for explicit use of data e.g.</p> <ul style="list-style-type: none"> <li>• In Q1 2019 real GDP did not grow <b>(1)</b></li> <li>• Quoting one or more of the quarterly figures <b>(1)</b></li> </ul> | <b>(4)</b> |

| Question Number | <p><i>Ceteris paribus</i>, calculate the aggregate demand for the USA in 2018.</p> <p>Answer</p>   | Mark |
|-----------------|--|------|
| 11              | <p><b>Knowledge 1, Application 3</b></p> <p><b>Quantitative skill assessed</b><br/>           QS9 Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge</b><br/>           1 mark for correct definition or formula for AD:<br/> <math>C+I+G+(X-M)</math> (1)</p> <p><b>Application</b><br/>           up to 3 marks for correct application<br/> <math>\\$13.95\text{tn} + \\$3.65\text{tn} + \\$3.52\text{tn}</math> (1) + <math>(\\$2.50\text{tn} - \\$3.10\text{tn})</math> (1)<br/> <math>=\\$20.52</math> trillion (1)</p> <p><b>NB: If correct answer (\$20.52 trillion) is given, award full marks regardless of working</b><br/> <b>An answer of "\$20.52" or "20.52trillion" or "20.52" will gain 3 marks.</b></p> | (4)  |

## Section C

| Question Number | Define the term 'monetary policy'. (Extract A, line 8)<br><br>Answer  | Mark       |
|-----------------|---|------------|
| <b>12(a)</b>    | <p><b>Knowledge 2</b></p> <p>1 mark for the definition of monetary policy:</p> <ul style="list-style-type: none"> <li>• The use of interest rates/the base rate/quantitative easing to control the money supply <b>(1)</b></li> </ul> <p>1 mark for further development e.g.</p> <ul style="list-style-type: none"> <li>• A demand-side policy/targeted to shift AD <b>(1)</b></li> <li>• Conducted by monetary authority/central bank <b>(1)</b></li> <li>• Often used to help achieve an inflation target <b>(1)</b></li> <li>• Deflationary monetary policy helped reduce inflation in East Africa <b>(1)</b></li> </ul> | <b>(2)</b> |

| Question Number | With reference to Extract A, explain the term 'foreign direct investment'.<br><br>Answer  | Mark       |
|-----------------|---|------------|
| <b>12(b)</b>    | <p><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge</b></p> <p>Up to 2 marks for offering a definition of FDI:</p> <ul style="list-style-type: none"> <li>• The transfer of funds from one country to another <b>(1)</b> to purchase physical capital <b>(1)</b></li> <li>• Where TNCs invest funds <b>(1)</b> to establish a new business/purchase an existing business in another country <b>(1)</b></li> <li>• An injection into an economy coming from abroad <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for reference to Extract A e.g.</p> <ul style="list-style-type: none"> <li>• "FDI in the region also contributed to economic growth" <b>(1)</b></li> <li>• Growth in FDI in 2018 was 67% in Uganda/27% in Kenya/18% in Tanzania <b>(1)</b></li> </ul> | <b>(4)</b> |

| Question Number | With reference to Figure 1 and Extract A, examine <b>two</b> likely impacts of the annual GDP growth rates on the people living in East African countries.<br><br>Answer   | Mark       |
|-----------------|--|------------|
| 12(c)           | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p>QS2: Calculate, use and understand percentages, percentage changes and percentage point changes<br/>           QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge and Analysis</b><br/>           Up to 2 marks for identification of 2 impacts and 1 mark for each expansion point, up to maximum of 4 marks (2+2):</p> <ul style="list-style-type: none"> <li>• Rapid growth means that living standards likely to rise faster than other areas of Africa <b>(1)</b> improving relative incomes/standards of living <b>(1)</b></li> <li>• Rapid growth means that unemployment is likely to fall/employment is likely to rise <b>(1)</b> leading to higher real incomes/helping to improve living standards <b>(1)</b></li> <li>• Growth in agriculture and mining may lead to more environmental damage <b>(1)</b> reducing the quality of life due to health problems <b>(1)</b></li> <li>• Improving relative incomes may enable consumers to import better quality goods <b>(1)</b> improving their quality of life <b>(1)</b></li> <li>• High levels of AD may generate inflation <b>(1)</b> which will lead to higher costs of living/have negative impact on those on fixed incomes/generate shoe leather and menu costs <b>(1)</b></li> <li>• Rapid growth may mean that some economic agents e.g. business owners may benefit more than others e.g. workers <b>(1)</b> resulting in an increase in inequality <b>(1)</b></li> </ul> <p><b>Application</b><br/>           1 mark for reference to Extract A:</p> <ul style="list-style-type: none"> <li>• Fastest growing region of Africa in 2018/</li> <li>• Most of the growth contributed by agriculture and mining/</li> <li>• FDI contributed to growth/</li> <li>• Inflation rate was 13.1% in 2016/14.4% in 2017</li> <li>• Better roads and airports <b>(1)</b></li> </ul> <p>1 mark for reference to Figure 1</p> <ul style="list-style-type: none"> <li>• Real GDP grew at least 5% each year/</li> <li>• Highest growth 6.5% in 2015 <b>(1)</b></li> </ul> | <b>(8)</b> |

**Evaluation**

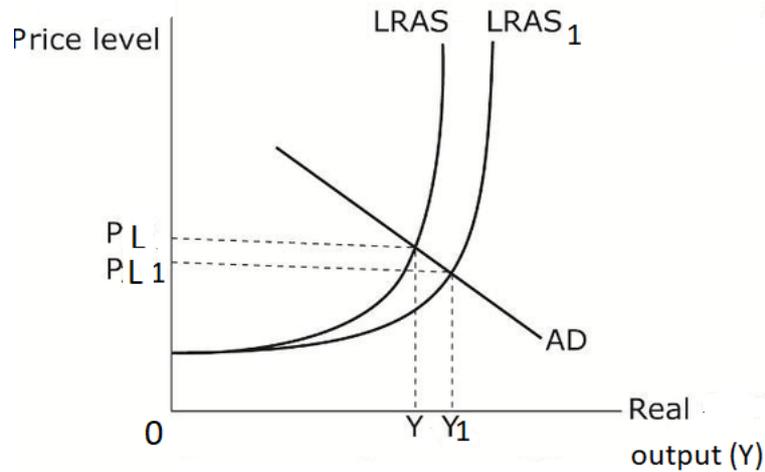
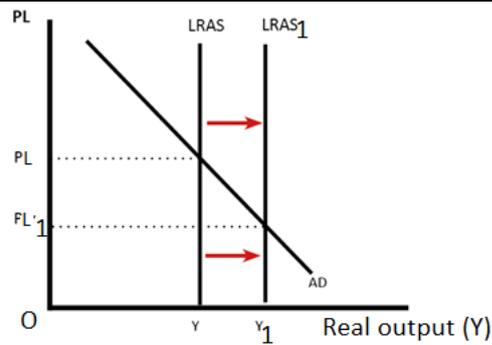
Up to 2 marks for evaluative comments, (1+1, 2+0) e.g.:

- Impact on un/employment will depend on whether growth is on labour intensive or capital-intensive industries **(1)**
- Whilst there are high rates of inflation these are real growth figures **(1)** showing people's average incomes should be growing more rapidly **(1)**
- Impact on inequality depends on government policy with regard to taxation and welfare benefits **(1)**
- Growth is based on increasing commodity prices **(1)** which are volatile/fluctuate/may reduce in the future **(1)**
- The growth rate has slowed from 6.5% in 2015 to 5.7% in 2018 **(1)** suggesting the impacts will be reducing in significance **(1)**
- Population might be growing at a faster rate than GDP **(1)** so GDP per capita is falling and people are worse off **(1)**
- Consumers importing more may create a trade deficit **(1)** reducing the level of AD/creating a withdrawal from the economy **(1)**

| Question Number | With reference to Figure 2, analyse <b>one</b> macroeconomic effect of the change in the current account balance as a percentage of GDP on East African economies.  |            |
|-----------------|---|------------|
|                 | Answer  | Mark       |
| <b>12(d)</b>    | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>QS2 Calculate, use and understand percentages, percentage changes and percentage point changes<br/>           QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge and analysis</b><br/>           1 mark for definition of current account deficit</p> <ul style="list-style-type: none"> <li>• Current account balance looks at the inflow and outflow of goods, services, investment incomes and transfer payments <b>(1)</b>/ the components of the current account are trade in goods, trade in services, investment income and net transfers <b>(1)</b></li> <li>• A deficit on the current account usually implies that the value of imports is greater than the value of exports <b>(1)</b></li> </ul> <p>Up to 3 marks for explaining one effect of the change in the current account balance e.g.</p> <p>Deficit reducing:</p> <ul style="list-style-type: none"> <li>• Deficit in the current account is decreasing, showing greater level of export/lower level of import in 2018 compared to recent years <b>(1)</b> so less leakage from the circular flow of income <b>(1)</b></li> <li>• Improved current account balance likely to indicate greater international competitiveness <b>(1)</b> leading to continued improvement <b>(1)</b></li> </ul> <p>Deficit remaining:</p> <ul style="list-style-type: none"> <li>• Net withdrawal from the circular flow <b>(1)</b> meaning more withdrawals than injections <b>(1)</b> will have a negative multiplier effect <b>(1)</b></li> <li>• The deficit will tend to reduce net trade <b>(1)</b> and so reduce AD <b>(1)</b> leading to a fall in price level and real output <b>(1)</b></li> <li>• Deficit may mean a loss of jobs <b>(1)</b> as exports are falling/imports are rising <b>(1)</b> increasing unemployment/creating a negative output gap <b>(1)</b></li> </ul> | <b>(6)</b> |

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|  | <p><b>Application</b><br/>Up to 2 marks for reference to Figure 2</p> <ul style="list-style-type: none"><li>• The current account balance is a deficit <b>(1)</b></li><li>• The size of the deficit as a proportion of GDP has reduced <b>(1)</b></li></ul> <p><b>OR</b></p> <ul style="list-style-type: none"><li>• The deficit was -6.7% of GDP in 2016 and -5.3 of GDP in 2018 <b>(1)</b></li></ul> |  |
|--|--|--|

|                 |   |
|-----------------|---|
| Question Number | With reference to Extract A and Extract B, discuss the likely effects of interventionist supply-side policies on East African economies.<br><br>Indicative content  |
| 12(e)           | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, Application and Analysis (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Definition of supply-side policies- aimed at influencing AS</li> <li>• Definition of interventionist supply-side policies - involves government intervention to boost LRAS</li> <li>• Policies from the Extracts include: <ul style="list-style-type: none"> <li>• investment in infrastructure- better or new roads, seaports and airports will enable business to move raw materials and finished products more easily/quickly helping them to operate at lower costs</li> <li>• improving the health of the labour force- through spending on healthcare will mean less absence/less time is lost to illness and disease enabling staff to be more productive</li> <li>• skills of the labour force- through spending on education/training the skills of the workforce will be improved enabling them to be more productive</li> <li>• improving the supply of housing- will ensure the population have proper shelter that helps keep them healthier as they better meet their basic needs</li> <li>• communications – will enable firms to communicate more effectively meaning decisions can be made more quickly enabling the business to make savings, cut costs and respond to opportunities</li> </ul> </li> <li>• Additional policies from the specification include <ul style="list-style-type: none"> <li>• incentives to encourage investment: tax incentive or subsidies</li> <li>• finance for business start-ups</li> <li>• regional policy</li> </ul> </li> </ul> <p>Diagram to illustrate impact of supply side policies- Classical or Keynesian</p> |



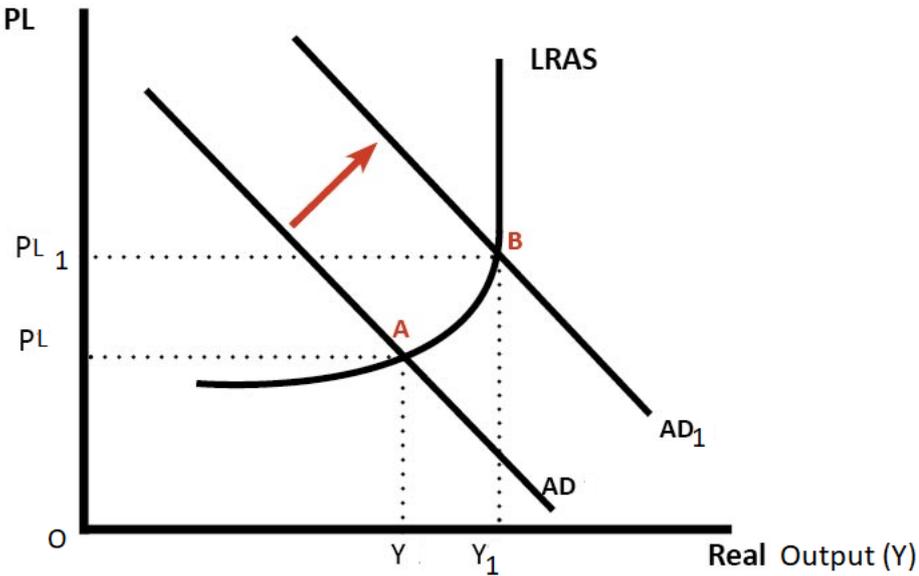
- As productive potential increases the LRAS shifts right
- Average price level falls from  $P$  to  $P_1$ - deflationary pressure
- Real output rises from  $Y$  to  $Y_1$ - economic growth
- Rising incomes can improve the standard of living
- As output increases, there is likely to be an increase in employment/fall in unemployment
- A lower price level may boost demand for exports improving the current account on the balance of payments
- Help citizens to meet their basic needs- providing more with food, shelter and clothing
- Increased income and increased consumption may lead to more tax revenue for the government and help secure a fiscal surplus

| Level          | Mark | Descriptor  |
|----------------|------|---|
|                | 0    | No rewardable material.   |
| <b>Level 1</b> | 1-3  | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning. |

|  |     |  |
|--|-----|--|
| <b>Level 2</b>   | 4-6 | <p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>   |
| <b>Level 3</b>   | 7-8 | <p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p> |
| <p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Implementing supply-side policies has the effect of increasing government expenditure, which increases AD, leading to higher price level, reducing the impact of the increase in LRAS</li> <li>• Opportunity costs- money spent on infrastructure would be better spent elsewhere or on a different supply side need</li> <li>• Government may experience information failure and intervene in the wrong areas</li> <li>• Magnitude- the impact will depend on the amount spent by the government on the interventionist policy</li> <li>• Time lag- it will take time to build infrastructure/housing</li> <li>• Time lag- investment in education will not have an immediate impact on productivity as it takes time for students to complete their education</li> <li>• Need to ensure prestige products are not created</li> <li>• Free market policies may be better to help make it easier to do business, for example, through deregulation of product and labour markets, reduction in taxation and cutting the costs of bureaucracy for firms</li> <li>• Investment is already underway for rail routes, so will have impact without need for further government infrastructure investment</li> <li>• Poor road conditions suggest significant investment is required</li> <li>• More houses, roads, seaports, airports may cause more environmental damage</li> </ul> |     |  |

| Level          | Mark | Descriptor   |
|----------------|------|--|
|                | 0    | No rewardable material.  |
| <b>Level 1</b> | 1-2  | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.   |
| <b>Level 2</b> | 3-4  | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.              |
| <b>Level 3</b> | 5-6  | Evaluation recognises different viewpoints and/or is critical of the evidence.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

## Section D

|                 |  |
|-----------------|--|
| Question Number | <p>In 2019 the new President of the European Central Bank asked governments of eurozone countries to cut taxation and increase government expenditure to stimulate the rate of economic growth.</p> <p>Evaluate fiscal policy instruments as a means of increasing the rate of economic growth.</p> <p>Indicative content</p>  |
| 13              | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <ul style="list-style-type: none"><li>• Economic growth- increase in real GDP</li><li>• Fiscal policy- use of taxation and government expenditure</li><li>• Demand side policy- aimed at influencing AD</li><li>• Expansionary policy- aims to increase AD</li><li>• Would involve increase in government expenditure and/or decrease taxation</li><li>• Increased government expenditure would lead to increased AD – as G is a component of AD</li><li>• Decreased income tax would lead to more disposable income and increased consumption and increased AD</li><li>• Decreased corporation tax would see firms keep more profit and encourage investment and increased AD</li></ul> <p>Diagram</p>  <p>Diagram</p> <p>The diagram is an AD-AS model. The vertical axis is labeled 'PL' (Price Level) and the horizontal axis is 'Real Output (Y)'. A vertical line represents 'LRAS' (Long-Run Aggregate Supply). Two downward-sloping lines represent aggregate demand: 'AD' (initial) and 'AD1' (new), with a red arrow pointing from AD to AD1. The initial equilibrium point 'A' is at the intersection of AD and LRAS, corresponding to price level 'PL' and output 'Y'. The new equilibrium point 'B' is at the intersection of AD1 and LRAS, corresponding to a higher price level 'PL1' and higher output 'Y1'.</p> |

|  |   |
|--|---|
|  | <ul style="list-style-type: none"> <li>• As can be seen the increase in AD leads to an increase in real output from <math>Y</math> to <math>Y_1</math></li> <li>• With higher real output employment would increase/unemployment decrease</li> <li>• If private sector investment is encouraged then further increases in economic growth could occur due to the multiplier effect (may be shown diagrammatically with further rightwards shift of AD and a shift in LRAS)</li> </ul> <p><b>NB: Award a maximum of Level 3 (9 marks) if only one fiscal policy instrument is considered</b></p> |
|--|---|

| Level          | Mark  | Descriptor  |
|----------------|-------|---|
|                | 0     | No rewardable material.   |
| <b>Level 1</b> | 1–3   | <p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach, which has no chains of reasoning.</p>   |
| <b>Level 2</b> | 4–6   | <p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>  |
| <b>Level 3</b> | 7–9   | <p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>               |
| <b>Level 4</b> | 10–12 | <p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p> |

**Evaluation (8 marks) – indicative content**

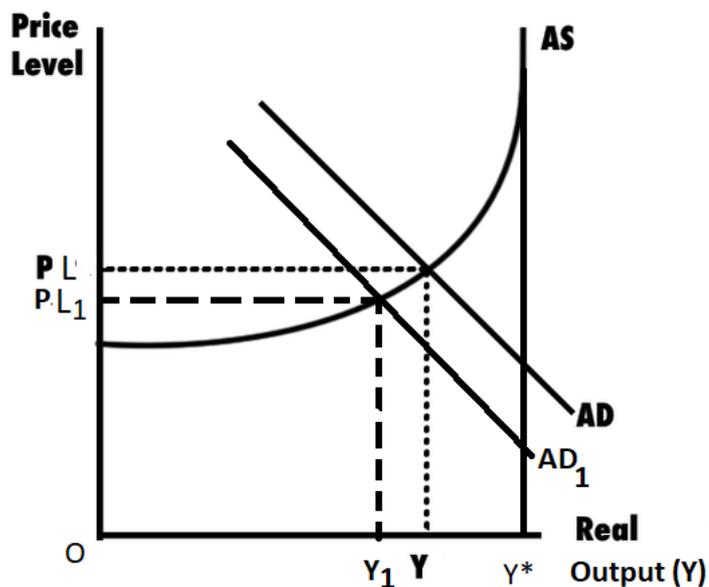
- Fiscal policy may lead to an increase in average price level increasing from P to P<sub>1</sub>-inflationary pressure
- May create a fiscal deficit- adding to repayments in future
- Many adjustments to tax and government expenditure may have effects on the supply-side
- Supply-side policy may be more effective as does not come with the trade-off with inflationary pressure
- Monetary policy may be more effective – and is the primary responsibility of ECB, rather than advising national governments in areas which are not its responsibility
- The shape of the LRAS curve is important- if it is classical in shape the increase in AD will just cause inflationary pressure with no economic growth in the long run
- Depends on the position of AD on a Keynesian AS curve- on the horizontal section economic growth will be higher and on the vertical section will cause more inflationary pressure
- People may substitute from work to leisure as their disposable income increases
- Government spending generates an opportunity cost- money might be better spent elsewhere
- Coordination issues across the member states
- Magnitude- depends on the size of reduction in taxation/ increase in government spending
- Time lag- may take time for tax cuts to take effect and for consumers to realise their disposable income is now higher
- Time lag – government expenditure can be slow due to delays in setting contracts etc
- If there is an increase in government expenditure on investment then there will be an increase in LRAS as well as in AD
- Impacts on potential growth as fiscal policy may boost LRAS dependent on what government spends money on or where they reduce taxation

| Level          | Mark | Descriptor   |
|----------------|------|--|
|                | 0    | No rewardable material.  |
| <b>Level 1</b> | 1–3  | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.   |
| <b>Level 2</b> | 4–6  | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.  |
| <b>Level 3</b> | 7–8  | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

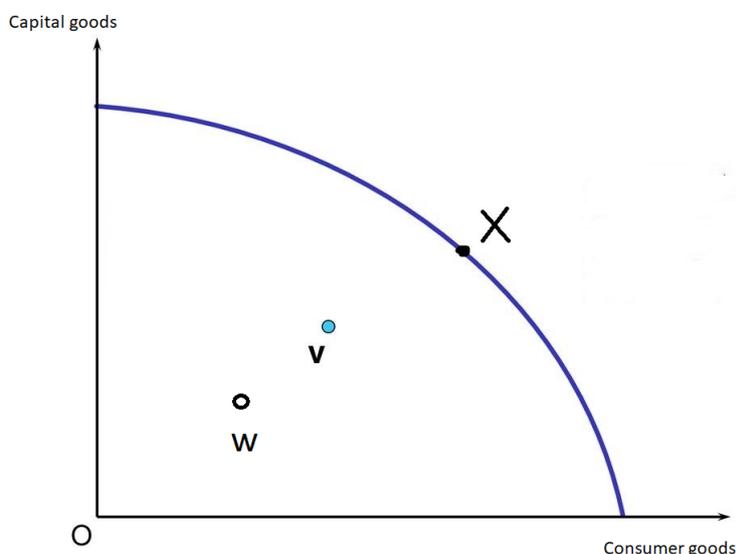
|                 |   |
|-----------------|---|
| Question Number | <p>In quarter 1 2019 the unemployment rate in South Africa was 27.6%. In quarter 2 it increased to 29%. An additional 455 000 workers became unemployed.</p> <p>Evaluate the likely impact of an increase in the unemployment rate on workers, public finances and resource utilisation.</p> <p>Indicative content</p>  |
| 14              | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Unemployment- those willing and able to work but unable to find suitable employment</li> <li>• Unemployment has increased from 27.6% to 29%/increase of 1.4%</li> </ul> <p>Workers</p> <ul style="list-style-type: none"> <li>• Workers may fear losing their job and may increase savings, thus reducing consumption, aggregate demand and subsequently leading to a fall in real output and a fall in the price level</li> <li>• Workers may take jobs that are below their skill levels leading to underemployment</li> <li>• Workers who lose their jobs may spend a long time unemployed and become deskilled – they will be less employable and less attractive to employers</li> <li>• Workers who lose their job will see a reduction in earnings/living standards/ability to meet their basic needs</li> <li>• Social effects of unemployment – divorce, crime rate, health impacts</li> <li>• Long term effects of intergenerational unemployment</li> </ul> <p>Public finances</p> <ul style="list-style-type: none"> <li>• As more become unemployed they may qualify for unemployment benefits, this will cause an increase in government spending</li> <li>• As people move from employment to unemployment, they may move from being income taxpayers to non-income taxpayers reducing income tax revenue</li> <li>• Higher unemployment suggests lower output, thus lower profits for private firms and lower corporation tax revenue for government</li> <li>• With lower tax revenue and higher government expenditure the fiscal position will worsen.</li> <li>• Government may need to provide training to workers, or support to private firms - once again increasing spending and worsening fiscal position</li> </ul> |

Resource utilisation

- Resource utilisation is worse as scarce resources of labour are being wasted
- With higher unemployment the economy is going to be below full employment level of output



- The rise in unemployment will cause real output to move further away from the full employment level of real output, at  $Y^*$ . Output moves from  $Y$  to  $Y_1$
- The output gap was  $Y^*-Y$  and increases to  $Y^*-Y_1$
- The economy will operate further from the PPF- an original inefficient allocation of resources at point  $V$  on diagram below is exacerbated by rising unemployment and moves to point  $W$



**NB: Award a maximum of Level 3 (9 marks) if one of the three areas is not discussed – impact on workers, public finances and resource utilisation**

| Level          | Mark  | Descriptor   |
|----------------|-------|--|
|                | 0     | No rewardable material.  |
| <b>Level 1</b> | 1-3   | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning.  |
| <b>Level 2</b> | 4-6   | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.  |
| <b>Level 3</b> | 7-9   | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.   |
| <b>Level 4</b> | 10-12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.   |
|                |       | <p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Unemployment may fall again in short/medium-term, reducing the effects on workers, finances and resource utilisation</li> <li>• Some of those unemployed may be employed in the informal sector meaning their incomes may not reduce, although impact on public finances may continue</li> <li>• A generous social welfare system may reduce the impact on standards of living, and may reduce other social costs</li> <li>• Some increase in unemployment may be due to more capital-intensive output replacing workers, so overall output may not fall, helping maintain level of AD</li> <li>• Government revenue from corporation tax may not fall as much as a result</li> </ul> |

|                |      | <ul style="list-style-type: none"> <li>• May be possible to postpone or delay some government expenditure, so that fiscal deficit may be lessened</li> <li>• This is an additional 455 000 workers now unemployed- showing a large increase in the waste of scarce resources</li> <li>• Utilisation of resources may improve over time through retraining or other employment initiatives</li> </ul> |
|----------------|------|--|
| Level          | Mark | Descriptor   |
|                | 0    | No rewardable material.  |
| <b>Level 1</b> | 1–3  | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.   |
| <b>Level 2</b> | 4–6  | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.  |
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